

# Madoff and Stanford and Raj, Oh My\*

In response to the stock market crash of 1929 and corresponding Great Depression, the United States Congress created the Securities Act of 1933 and the Securities Exchange Act of 1934. The latter established the Securities and Exchange Commission, routinely known as the SEC. President Franklin D. Roosevelt appointed Joseph P. Kennedy as the first Chairman of the newly created agency. At that point in time, the securities industry was still in its infancy and regulations were deemed needed to prevent abuse. By 1935, Congress had asked the SEC to conduct a study of investment trusts, which ultimately lead to the creation of the Investment Advisors Act of 1940. This legislation, along with the Employee Retirement Income Security Act of 1974 (ERISA), regulates Registered Investment Advisors (RIA), including Sigma Investment Counselors. These "Acts" have been amended on several occasions over the years and as various issues arise (think Bernie Madoff), these Acts will continue to be modified in the future.

For example, in 2003, the Investment Advisors Act of 1940 was amended to require investment advisors to designate a Chief Compliance Officer

(CCO). The primary responsibility of the CCO is to create and implement a compliance program within the organization. This includes the drafting of a Policies and Procedure manual, monitoring the behavior of the staff to insure compliance, and enforcing the rules if and when violations occur. The SEC also randomly audits RIAs to gauge the effectiveness of each firm's compliance efforts. If serious or persistent violations are found, the SEC has the authority to shut down a firm.

The record-keeping highlighted above include Sigma's Policies and Procedures Manual, our Code of Ethics, Disaster Recovery Manual and Privacy Policy. These documents are reviewed continuously and updated as needed. Investment management contracts, investment policy statements, trade tickets, marketing materials and similar internal documents are also routinely examined. Our goal is to identify areas of possible risk so that focus is placed on potential problems before they blossom. These internal controls are designed to help prevent, detect and correct any violations of regulatory requirements as well as improve our operating procedures.

# summaries

What does this have to do with investment portfolio management? First, Sigma must act in an ethical manner and place clients' financial interests ahead of employees' financial interest at all times. For example, let's suppose that it is decided that a certain stock should be purchased or sold from clients' accounts on a particular day. After the trade has been executed, employees must wait until after 3 pm on the following business day to do the same trade in their personal account. This is to prevent the employee from trying to game the system and place a personal trade ahead of a client's trade in an effort to get a better price. Thus, we monitor client and employee accounts on a daily basis to make certain that company policy is being observed.

Client accounts are closely watched by portfolio managers to ensure that they properly reflect that client's investment objectives, restrictions and risk tolerances, as spelled out in each client's Investment Policy Statement. As a matter of best practices, the CCO conducts reviews as well; alerting portfolio managers when portfolios need to be rebalanced to conform to agreed upon asset allocation and liquidity tolerances.

Sigma's Privacy Policy relates to the safeguarding of client information. The Disaster Recovery and Contingency Plan manual describes in detail what must be done to resume business operations in as short a period of time as possible in the aftermath of an emergency or disaster. Our Code of Ethics, which every member of the Sigma team must

subscribe to and abide by, specifies high standards of business conduct, compliance with securities laws, and the reporting and record keeping of all personal security transactions and holdings.

In the ever changing regulatory environment, continuing education is a must. Thus, our compliance officer regularly attends seminars, subscribes to various publications and searches key Internet sites such as [www.sec.gov](http://www.sec.gov) and [www.nasaa.org](http://www.nasaa.org) to increase the knowledge base of the compliance professional so that the firm is kept up to date and complies with new laws and statutes.

Shari Bilkie serves as Sigma's Chief Compliance Officer and is available to address any additional questions you may have regarding this subject.

## **\*About the Title:**

*Bernard L. Madoff* created the largest "Ponzi" scheme in history. He is estimated to have lost investors \$18 billion. He pleaded guilty to 11 federal felonies and on June 29, 2009 was sentenced to 150 years in prison.

*Robert A. Stanford* is also charged with creating a massive "Ponzi" scheme. He is accused of fraud and multiple violations of securities law and is currently awaiting trial.

*Raj Rajaratnam* was found guilty of conspiracy and securities fraud regarding allegations of insider trading and on October 13, 2011 was sentenced to 11 years in prison.

Shari A. Bilkie

## What's New at Sigma

2011 has been quite a year for new happenings at Sigma. In March, we moved into our new offices on the 11th floor of the American Center. We were able to take advantage of the current real estate market and upgrade our facilities at a similar cost. The new offices are more functional and we have some great neighbors in the building. If you haven't had a chance to visit us in our new location, please stop by for a cup of coffee and a tour. The view from our office is especially nice right now with the fall colors!

Anyone who has called or stopped by Sigma since July 1 may have had the pleasure of talking with Dominique Poma. We were happy to add Dominique to our fantastic operations staff this year. Dominique brings with her a background in public relations and communications. Her responsibilities at Sigma include preparing and assisting with marketing reports, campaigns and materials as well as providing ongoing support for compliance related tasks. Dominique's assistance with compliance related tasks was especially welcomed by Shari Bilkie who, in addition to the number of other internal functions she handles at Sigma, took on the title of Chief Compliance Officer this year. Keeping up with the ever increasing compliance requirements is quite a challenge, and Shari is well prepared. The accompanying piece to this month's Sigma Summaries touches on some of what goes into this effort.

Professional education has always remained a high priority at Sigma, and the Chartered Financial Analyst (CFA) designation is held by Bob Bilkie, Chris Kress, Denise Farkas, Walter Kirchberger, and Marisa Lenhard. The CFA designation is a mark of distinction that is globally recognized by employers, investment professionals, and investors as the definitive standard by which to measure serious investment professionals. As of last May, we were proud to have another Sigma employee, Chris Frayne, attain CFA charterholder status. The CFA program includes a series of three exams, which must be passed sequentially. A charterholder must also acquire 48 months of approved work experience. The years of hard work and studying Chris put into the program are well recognized. Much kudos to Chris on this accomplishment!

Also, in addition to the CFA designations, Chris Frayne and Marisa Lenhard both pursued and passed the Certified Financial Planner™ (CFP) exam in July. This was a ten hour exam over two days covering a list of nearly 100 topics on financial planning such as insurance, retirement, employee benefits, income tax, estate planning, and investments. We are very proud of these accomplishments, and believe our continued focus on professional education will continue to serve our clients well.

And last but certainly not least, Sigma was very excited at the end of July to bring on board Suzanne Antonelli, CFP®. Suzanne joined Sigma with over

local independent personal accessible  
interactive creative local independent personal  
knowledgeable thoughtful ethical experienced

20 years of experience in fixed income research, portfolio development and asset allocation, and tax and retirement planning. Suzanne's primary responsibilities at Sigma include serving as a relationship officer and portfolio manager on client accounts as well as participating on the firm's Investment Committee. Suzanne earned

the Certified Financial Planner™ designation in 2009 and is a member of the Financial Planning Association of North America. Suzanne is a great fit at Sigma, and we are very happy to have her on our team!

Marisa A. Lenhard, CFA

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**Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives**